



Diasporas and Fragile States

Through the transfer of money, values and ideas, diasporas both contribute to and represent a way out of state fragility. This DIIS Brief examines how diasporas influence their homelands and makes policy suggestions on how to improve the positive and reduce the negative effects of diasporas.

October 2008

Within the past decade, the development potentials of diasporas, referring to people living outside their original homelands, has come to the attention of researchers, policy-makers and the wider public. Through the transfer of money, values and ideas, diasporas participate in the economic, political and socio-cultural life of their homelands. The relationship between diasporas and fragile states is complex, depending on both the emergence, nature and composition of the diaspora, and the specific form of state fragility. State fragility often triggers large diasporas whenever poverty, civil war, a lack of employment opportunities and basic social services make people leave their homelands in search of better and safer havens.

The development potential of diasporas depends on whether people leave as refugees or migrants, on their human and financial capacities, and on whether they oppose or support the government back home. The role of diasporas in relation to conflict can be both positive and negative. On the negative side, diasporas are known to collect and send back money and equipment to militias and to prolong and radicalize conflicts in their homelands. On the positive side, diasporas sometimes help end conflicts, rebuild trust and political institutions when they participate in the transfer of democratic ideals, support civil society organizations or perhaps return to take up political careers. In Denmark, the development potential of diasporas remains largely untapped. This DIIS Brief examines diasporas in relation to fragile states and makes three policy recommendations:

I. SECURE AND IMPROVE THE EFFECTS OF REMITTANCES

Remittances, i.e. funds transferred by members of diasporas to their countries of origin, now constitute an important financial flow to many fragile countries.

POLICY RECOMMENDATIONS

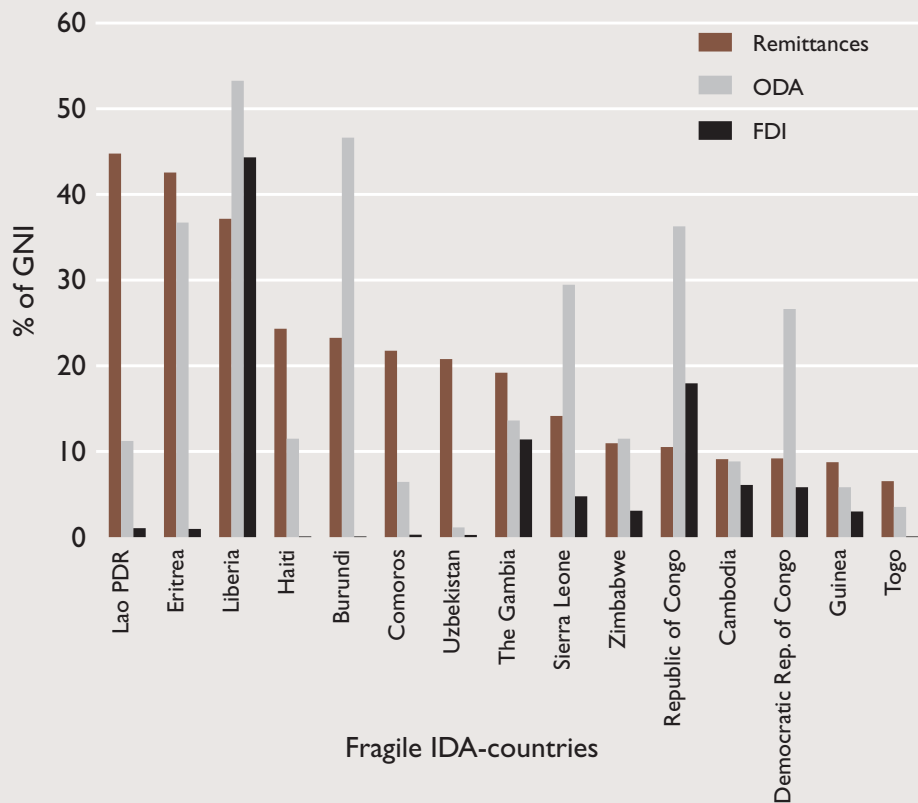
- 1) Secure and improve the effects of remittances
- 2) Stimulate the transfer of social remittances
- 3) Build the capacities of migrant associations

Data on remittances are generally inadequate and unreliable. In fragile states with poor or no financial institutions and correspondingly large informal economies, official data simply do not exist. Recent estimates show that 150 million migrants and refugees worldwide sent USD 300 billion to their families in developing countries during 2006. Compared to the flow of official development assistance (ODA), remittances are nearly three times higher and only slightly smaller than the flow of foreign direct investments (FDI) to developing countries.

With an emphasis on institutional capacity, political stability and conflict, the World Bank defines 33 out of the world's 80 poorest countries (IDA countries) as fragile. Out of these 33 fragile countries, 21 are to be found in sub-Saharan Africa, and 18 are conflict or post-conflict countries. Figure 1 shows the relative importance of remittances in 15 fragile states found among the world's poorest countries (measured in relation to Gross National Income (GNI)) in 2005. Missing from Figure 1 are countries like Somalia and Afghanistan, for which no reliable data exist, but where remittances undoubtedly constitute a vital lifeline for a large part of the population.



FIGURE 1

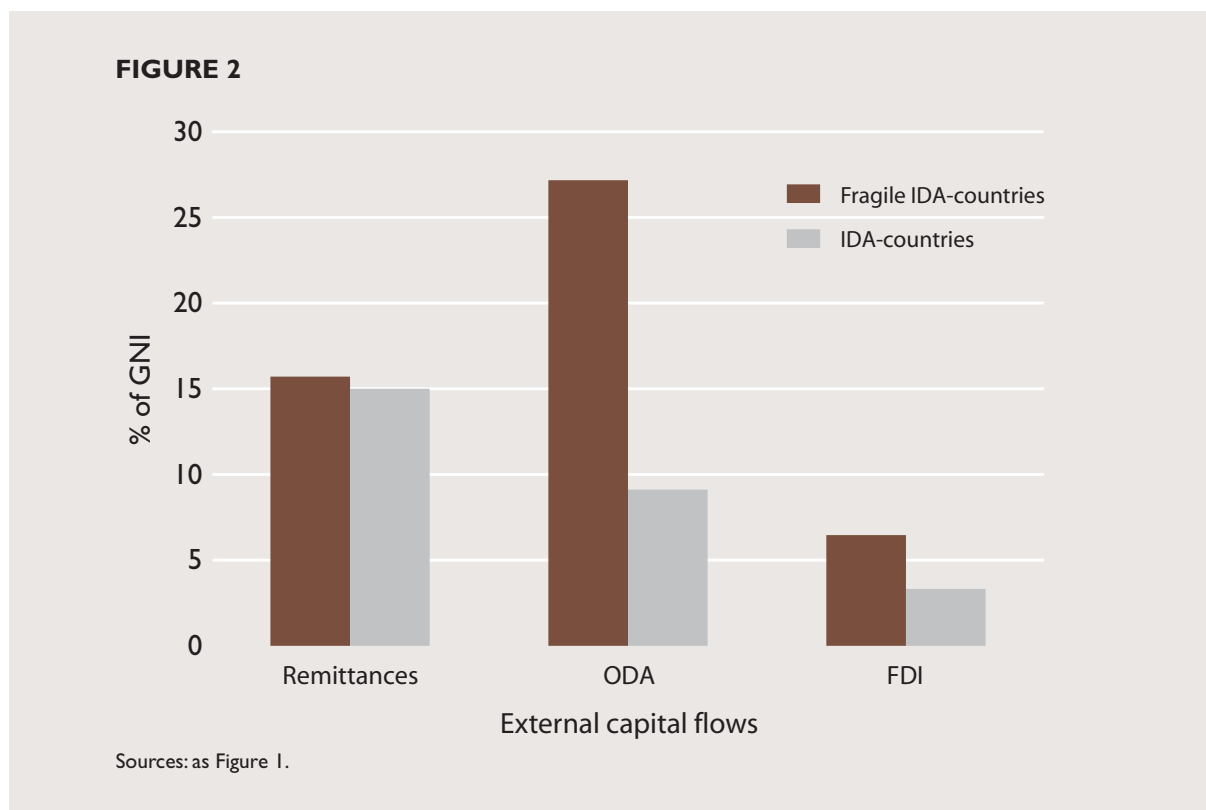


Sources: *Global Development Finance*, The World Bank, 2007; *IDA - List of Fragile States*, The World Bank, 2007; *Sending Money Home*, IFAD, 2007; *Aid Statistics*, OECD-DAC, 2007.

It is difficult to draw general conclusions as to whether remittances contribute to or are a way out of state fragility. Most remittances are used for food, clothes, school fees and medicines, thus increasing their recipients' access to basic social services. Remittances are also invested in the private sector, particularly in houses and plots. There are both positive and negative effects of remittances. On the positive side, remittances are known to reduce poverty, increase savings, increase investments in human capital and increase recipient countries' access to international credit markets. Most importantly, remittances are often counter-cyclical in the sense of increasing when other investments decline (e.g. in times of conflict, economic recession and natural disasters, where immediate assistance is needed). On the negative side, remittances are known to cause inflation, increase imports and create dependency among their recipients. In some situations remittances may contribute to or prolong state fragility, as their macro- and microeconomic importance gives legitimacy and stability to fragile states that are in need of political and economic reform. Remittances also often increase

differences between those with and without access to remittances, and in this sense may cause or increase social tensions and conflicts. Moreover, the flow of remittances is known to lead to more out-migration (see DIIS brief on brain drain and state fragility by Jon Mortensen).

As can be seen in Figure 2, remittance flows to fragile and non-fragile poor countries are more or less the same (app. 15% of GNI). This reflects the fact that remittances are primarily linked to the well-being of the family and are not determined by levels of governance and institutional stability. This means that policy recommendations in relation to remittances in general are also relevant in relation to fragile states: lower the cost of sending remittances (e.g. by increasing competition and transparency on the remittance market), use and encourage new technology (e.g. Internet and SMS), strengthen financial institutions in country of origin, bank the unbanked, etc. In relation to fragile states, it is important that remittance policies do not stand alone but are combined with political, economic and social policies whereby some of the potentially negative effects of remittances can be reduced.



What is also important in relation to fragile states is to ensure that transfers are not prevented on grounds of unfounded suspicions of their being linked to terrorism. In most fragile states with no formal financial institutions, remittances flow via informal networks (e.g. the *hawala* system in Somalia and Afghanistan). These networks are often seen by external observers as illegal and as constituting the financial infrastructure for criminals and terrorists. This means that informal remittance networks run the danger of being criminalized and eventually closed down, thus ending a crucial lifeline for the world's poorest and most fragile countries. This can be prevented through better monitoring of remittance flows and the formalization of the informal remittance sector.

2. STIMULATE THE TRANSFER OF SOCIAL REMITTANCES

Diasporas also influence countries of origin through the transfer of ideas, values, beliefs and practices, also referred to as social remittances. The focus on social remittances follows the acknowledgment that many of the changes that migration gives rise to do not result from monetary remittance flows alone. Social remittances are typically transferred through communication and migration between diaspora and homeland – for example, when people return to or visit their homelands, when they participate in political discussions on the Internet, and when they communicate with family and friends using email or telephone.

Compared to research and policy-development in relation to financial remittances, social remittances have largely been neglected.

In some cases (e.g. in the unrecognized Republic of Somaliland), diasporas are directly engaged in writing the constitution and laws of their homelands, in setting up political parties and building state institutions, and thus in introducing political identities and practices often based on the ideals of western liberal democracy (e.g. rule of law, human rights, good governance, accountability, elections, etc.). The dual role of diasporas being both outside and within the affairs of the homeland puts them in a privileged position in relation to other development agents. Local power-holders, for example, may be more receptive to new ideas, initiatives and requests for reform when they come from the diaspora rather than from external institutions and donors.

Diasporas do not always make good development partners. Some members of diasporas focus on life in their newly adopted countries, have no connections with family and friends back home and perhaps have only very nostalgic and romantic ideas about their homelands. The ability for diasporas to influence countries of origin is dependent on particular activities that are linked to levels and processes of integration in host countries. The ability to send back money, to participate in political processes and perhaps to return to one's country of origin depends on the financial and human resources that have been accumulated in the



diaspora. This means that locating and building the human capacities of particular members and groups of diasporas can be a good strategy in terms of developing their countries of origin. The positive role of diasporas in relation to fragile states could be strengthened by human capacity-building and by making it easier for people to move back and forth between diaspora and homeland.

3. BUILD THE CAPACITIES OF MIGRANT ASSOCIATIONS

Migrants and refugees transfer money not only individually but also collectively through migrant associations (MAs). MAs typically consist of groups of people from the same locality who engage in various social, cultural, political and economic activities. MAs often focus on activities and issues relating to life in the diaspora, such as protecting legal rights and promoting the work careers of their members, but they also sometimes collect and transfer funds to their native village, town or nation state, where they are typically used for infrastructural and other development projects benefiting the larger community rather than individual households. Often MAs support civil society organizations in countries of origin through donations, information and political support.

Compared to the flow of individual remittances, the flow of collective remittances is much smaller. Nevertheless, MAs are interesting as they target community needs, and as such have more immediate development effects than individual remittances. MAs are often philanthropic and target poor people who are not linked to the diaspora through family networks and therefore receive no remittances. Often MAs have knowledge and networks to work in countries of origin without attracting too much attention from the state and are thus able to assist marginalized and discriminated groups that are not supported by other donors.

MAs are also often important agents in the transfer of social remittances. Compared to individual remittances over which senders have little or no control once they have been sent, MAs have more control over how collective remittances are spent. When collective remittances are used for specific types of projects or ac-

tivities, they reflect particular values and priorities and thus have the potential to influence political culture, gender relations, civil society, religion and socio-cultural values and practices more broadly in countries of origin.

The development dimensions of MAs could be strengthened by building up their institutional, human and financial capacities. There are some funding opportunities for MAs in Denmark, but many migrants and refugees do not know how to form an association, let alone how to write a project proposal that is eligible for funding. Clearly a more pro-active policy would increase the positive role played by MAs in fragile states (e.g. as mediators in conflict settings). Working with and through MAs is not unproblematic and presents the challenge of defining what development means. One risk is that local development problems and priorities articulated by the diaspora give way to donors' priorities and understandings of what development is. Another risk arises when MAs represent particular individuals or elites. Through a better knowledge of diasporas and MAs in Denmark, it is possible to choose suitable development partners and to counter the negative effects they may have in their homelands.

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More on fragile situations: www.diis.dk/fragile

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